

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2005.

We have issued unqualified opinions on the governmental activities and each major fund.

Financial Condition:

The fiscal court had net assets of \$27,591,499 as of June 30, 2005. The fiscal court had unrestricted net assets of \$1,167,215 in its governmental funds as of June 30, 2005. The fiscal court had total debt principal as of June 30, 2005 of \$57,605 with \$42,200 due within the next year.

Report Comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Be Adequately Bonded

Deposits:

The fiscal court's deposits were uninsured and unsecured by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owen County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Members of the Owen County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2006 on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Be Adequately Bonded

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 20, 2006

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

William P. O'Banion	County Judge/Executive
Carl Banks	Magistrate
Bobby Gaines	Magistrate
Gary Minch	Magistrate
Eugene Vannarsdall	Magistrate

Other Elected Officials:

Charles Carter	County Attorney
David Bruce	Jailer
Mary K. Duncan	County Clerk
Cindy Wright	Circuit Court Clerk
Zemer Hammond	Sheriff
Lee N. Cochran	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Norma W. McDonald	County Treasurer
Renaee Gaines	Payroll Officer

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OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,167,215
Total Current Assets	<u>\$ 1,167,215</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	\$ 263,200
Buildings	532,039
Vehicles and Equipment	436,381
Infrastructure Assets - Net of Depreciation	<u>25,250,269</u>
Total Noncurrent Assets	<u>\$ 26,481,889</u>
Total Assets	<u>\$ 27,649,104</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	\$ 42,200
Noncurrent Liabilities:	
Financing Obligations	<u>15,405</u>
Total Liabilities	<u>\$ 57,605</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 26,424,284
Unrestricted	<u>1,167,215</u>
Total Net Assets	<u>\$ 27,591,499</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Administration/General Government	\$ 1,057,415	\$ 10,130	\$ 54,892	\$
Protection to Persons and Property	682,718	308,981	163,421	
General Health and Sanitation	90,909	82,063		
Social Services	33,926			
Recreation and Culture	(8,673)			27,184
Roads	1,746,300		844,222	30,000
Interest on Financing Obligations	37,573			
Capital Projects	242,165			219,555
Total Governmental Activities	<u>\$ 3,882,333</u>	<u>\$ 401,174</u>	<u>\$ 1,062,535</u>	<u>\$ 276,739</u>

General Revenues:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Miscellaneous Revenues

Total General Revenues
Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Totals
\$ (992,393)	\$ (992,393)
(210,316)	(210,316)
(8,846)	(8,846)
(33,926)	(33,926)
35,857	35,857
(872,078)	(872,078)
(37,573)	(37,573)
(22,610)	(22,610)
<u>\$ (2,141,885)</u>	<u>\$ (2,141,885)</u>
\$ 374,398	\$ 374,398
1,848	1,848
91,742	91,742
676,494	676,494
78,377	78,377
56,417	56,417
<u>1,279,276</u>	<u>1,279,276</u>
(862,609)	(862,609)
<u>28,454,108</u>	<u>28,454,108</u>
<u>\$ 27,591,499</u>	<u>\$ 27,591,499</u>

The accompanying notes are an integral part of the financial statements.

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OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 775,486	\$ 389,997	\$ 1,732	\$ 1,167,215
Total Assets	<u>\$ 775,486</u>	<u>\$ 389,997</u>	<u>\$ 1,732</u>	<u>\$ 1,167,215</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 775,486	\$ -	\$	\$ 775,486
Special Revenue Funds		389,997	1,732	391,729
Total Fund Balances	<u>\$ 775,486</u>	<u>\$ 389,997</u>	<u>\$ 1,732</u>	<u>\$ 1,167,215</u>

Reconciliation to Statement of Changes In Net Assets:

Total Fund Balances	\$ 1,167,215
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	35,013,738
Depreciation	(8,531,849)
Long-term Debt Is Not Due and Payable in the Current Period and,	
Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(57,605)</u>
Net Assets Of Governmental Activities	<u>\$ 27,591,499</u>

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OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,144,483	\$	\$	\$ 1,144,483
Excess Fees	78,377			78,377
Intergovernmental	405,195	901,406	48,416	1,355,017
Charges for Services	398,211		720	398,931
Miscellaneous	14,364	11,201		25,565
Interest	12,192	5,159		17,351
Total Revenues	<u>\$ 2,052,822</u>	<u>\$ 917,766</u>	<u>\$ 49,136</u>	<u>\$ 3,019,724</u>
EXPENDITURES				
General Government	\$ 526,438	\$	\$	\$ 526,438
Protection to Persons and Property	604,020		209,572	813,592
General Health and Sanitation	104,886			104,886
Social Services	32,424			32,424
Recreation and Culture	89,549			89,549
Roads		696,816		696,816
Debt Service	37,573			37,573
Capital Projects	278,016			278,016
Administration	348,656	184,456	10,686	543,798
Total Expenditures	<u>\$ 2,021,562</u>	<u>\$ 881,272</u>	<u>\$ 220,258</u>	<u>\$ 3,123,092</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 31,260</u>	<u>\$ 36,494</u>	<u>\$ (171,122)</u>	<u>\$ (103,368)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	\$ 90,109	\$ 0	\$ 172,000	\$ 262,109
Transfers To Other Funds	(172,930)	(89,179)		(262,109)
Total Other Financing Sources (Uses)	<u>\$ (82,821)</u>	<u>\$ (89,179)</u>	<u>\$ 172,000</u>	<u>\$</u>
Net Change in Fund Balances	\$ (51,561)	\$ (52,685)	\$ 878	\$ (103,368)
Fund Balances - Beginning	827,047	442,682	854	1,270,583
Fund Balances - Ending	<u>\$ 775,486</u>	<u>\$ 389,997</u>	<u>\$ 1,732</u>	<u>\$ 1,167,215</u>

The accompanying notes are an integral part of the financial statements.

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**OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (103,368)
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	338,288
Depreciation Expense	(1,162,369)

Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Financing Obligations Principal Amount	64,840
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Change in Net Assets of Governmental Activities	\$ (862,609)
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OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Owen County Elected Officials Not Part Of Owen County Fiscal Court Audit

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major. For this fiscal year, there were no non-major funds reported by the fiscal court.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Machinery and Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government’s deposits may not be returned. The government follows the requirements of KRS 41.240(4) and does not have a deposit policy for custodial credit risk. As of June 30, 2005, all deposits were not covered by FDIC insurance or a properly executive collateral security agreement. However, on August 31, 2004, the government was exposed to custodial credit risk in the amount of \$38,568 as follows:

- Uncollateralized and uninsured \$38,568

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 215,000	\$	\$	\$ 215,000
Total Capital Assets Not Being Depreciated	215,000			215,000
Capital Assets, Being Depreciated:				
Land Improvements		50,000		50,000
Buildings	510,478	101,648		612,126
Vehicles and Equipment	1,410,966	186,640		1,597,606
Infrastructure	32,539,006			32,539,006
Total Capital Assets Being Depreciated	34,460,450	338,288		34,798,738
Less Accumulated Depreciation For:				
Land Improvements		(1,800)		(1,800)
Buildings	(70,686)	(9,401)		(80,087)
Vehicles and Equipment	(1,051,305)	(109,920)		(1,161,225)
Infrastructure	(6,247,489)	(1,041,248)		(7,288,737)
Total Accumulated Depreciation	(7,369,480)	(1,162,369)		(8,531,849)
Total Capital Assets, Being Depreciated, Net	27,090,970	(824,081)		26,266,889
Governmental Activities Capital Assets, Net	\$ 27,305,970	\$ (824,081)	\$ 0	\$ 26,481,889

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 11,179
Protection to Persons and Property	29,578
General Health and Sanitation	15,200
Social Services	1,502
Recreation and Culture	3,426
Roads, Including Depreciation of General Infrastructure Assets	1,101,484
Total Depreciation Expense - Governmental Activities	<u>\$ 1,162,369</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Financing Obligations

- A. On May 9, 2003, the Owen County Fiscal Court entered into a \$125,941, ten-year financial agreement with the Kentucky Association of Counties Leasing Trust to refinance the General Obligation Bonds, Series 2001, used to purchase the building for the County Clerk's office, at an interest rate of 2.245%. This agreement calls for monthly installments of principal, interest and fees with the first monthly payment beginning July 20, 2003. The following schedule outlines the remaining payments.

Fiscal Year Ended June 30	Governmental Activities Amortization Schedule	
	Principal	Interest
2006	\$ 11,638	\$ 2,981
2007	11,994	2,624
2008	12,360	2,259
2009	12,737	1,873
2010	13,126	1,485
2011-2013	41,835	1,985
Totals	\$ 103,690	\$ 13,207
Less: Additional Principal Payments made during:		
2004	\$ 52,089	
2005	24,558	
Total Principal Outstanding as of June 30, 2005	\$ 27,043	

- B. On July 15, 2002, the Owen County Fiscal Court entered into a \$75,888 four-year financing agreement with Public-Finance.com to purchase a new ambulance at an interest rate of 4.49%. An annual payment is due each July 25, with the first payment due July 25, 2002. The following schedule outlines the remaining payments.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 19,370	\$ 870
	\$ 19,370	\$ 870

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Financing Obligations (Continued)

- C. On July 15, 2002, the Owen County Fiscal Court entered into a \$43,388 four-year financing agreement with Ford Motor Credit Company to purchase two police cruisers at an interest rate of 7.07%. An annual payment is due each July 15, with the first payment due July 15, 2002. The following schedule outlines the remaining payments.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 11,192	\$ 791
Totals	<u>\$ 11,192</u>	<u>\$ 791</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 122,445	\$ -	\$ 64,840	\$ 57,605	\$ 42,200
Governmental Activities					
Long-term Liabilities	<u>\$ 122,445</u>	<u>\$ -</u>	<u>\$ 64,840</u>	<u>\$ 57,605</u>	<u>\$ 42,200</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Interest On Financing Obligations

Debt Service on the Statement of Activities includes \$4,955 in interest on financing obligations.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2004 and thereafter, are recorded at actual historical cost.

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,004,900	\$ 1,004,900	\$ 1,144,483	\$ 139,583
Excess Fees	30,297	78,290	78,377	87
Intergovernmental Revenue	329,057	1,040,504	405,196	(635,308)
Charges for Services	270,000	280,000	398,210	118,210
Miscellaneous	3,000	14,170	14,364	194
Interest	5,500	5,500	12,192	6,692
Total Revenues	<u>\$ 1,642,754</u>	<u>\$ 2,423,364</u>	<u>\$ 2,052,822</u>	<u>\$ (370,542)</u>
EXPENDITURES				
General Government	\$ 489,071	\$ 540,724	\$ 526,438	\$ 14,286
Protection to Persons and Property	601,179	660,769	604,020	56,749
General Health and Sanitation	120,394	105,868	104,886	982
Social Services	30,135	32,629	32,424	205
Recreation and Culture	44,500	89,698	89,549	149
Debt Service	40,182	39,941	37,573	2,368
Capital Projects	148,837	780,502	278,016	502,486
Administration	306,315	461,092	348,656	112,436
Total Expenditures	<u>\$ 1,780,613</u>	<u>\$ 2,711,223</u>	<u>\$ 2,021,562</u>	<u>\$ 689,661</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (137,859)</u>	<u>\$ (287,859)</u>	<u>\$ 31,260</u>	<u>\$ 319,119</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 50,000	\$ 50,000	\$ 90,109	\$ 40,109
Transfers To Other Funds	(112,141)	(112,141)	(172,930)	(60,789)
Total Other Financing Sources (Uses)	<u>\$ (62,141)</u>	<u>\$ (62,141)</u>	<u>\$ (82,821)</u>	<u>\$ (20,680)</u>
Net Changes in Fund Balance	\$ (200,000)	\$ (350,000)	\$ (51,561)	\$ 298,439
Fund Balance - Beginning	<u>200,000</u>	<u>450,000</u>	<u>827,047</u>	<u>377,047</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 775,486</u>	<u>\$ 675,486</u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 853,755	\$ 911,565	\$ 901,406	\$ (10,159)
Miscellaneous	400	400	11,201	10,801
Interest	6,800	6,800	5,159	(1,641)
Total Revenues	<u>\$ 860,955</u>	<u>\$ 918,765</u>	<u>\$ 917,766</u>	<u>\$ (999)</u>
EXPENDITURES				
Roads	\$ 721,208	\$ 780,543	\$ 696,816	\$ 83,727
Administration	189,747	188,222	184,456	3,766
Total Expenditures	<u>\$ 910,955</u>	<u>\$ 968,765</u>	<u>\$ 881,272</u>	<u>\$ 87,493</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ 36,494</u>	<u>\$ 86,494</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	\$ (50,000)	\$ (50,000)	\$ (89,179)	\$ (39,179)
Total Other Financing Sources (Uses)	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ (89,179)</u>	<u>\$ (39,179)</u>
Net Changes in Fund Balance	\$ (100,000)	\$ (100,000)	\$ (52,685)	\$ 47,315
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>442,682</u>	<u>342,682</u>
Fund Balance - Ending	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 389,997</u></u>	<u><u>\$ 389,997</u></u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 36,474	\$ 36,474	\$ 48,416	\$ 11,942
Charges for Services	100	100	720	620
Total Revenues	<u>\$ 36,574</u>	<u>\$ 36,574</u>	<u>\$ 49,136</u>	<u>\$ 12,562</u>
EXPENDITURES				
Protection to Persons and Property	\$ 135,797	\$ 235,300	\$ 209,572	\$ 25,728
Administration	12,918	14,265	10,686	3,579
Total Expenditures	<u>\$ 148,715</u>	<u>\$ 249,565</u>	<u>\$ 220,258</u>	<u>\$ 29,307</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (112,141)</u>	<u>\$ (212,991)</u>	<u>\$ (171,122)</u>	<u>\$ 41,869</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	\$ 112,141	\$ 112,141	\$ 172,000	\$ 59,859
Total Other Financing Sources (Uses)	<u>\$ 112,141</u>	<u>\$ 112,141</u>	<u>\$ 172,000</u>	<u>\$ 59,859</u>
Net Changes in Fund Balance	\$	\$ (100,850)	\$ 878	\$ 101,728
Fund Balance - Beginning		850	854	4
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (100,000)</u>	<u>\$ 1,732</u>	<u>\$ 101,732</u>

OWEN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2005

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2005

STATE LAWS AND REGULATIONS

The County Should Have A Written Agreement To Protect Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of June 30, 2005, at one of their banks, the County had bank deposits of \$405,667; FDIC insurance of \$100,000; and collateral pledged or provided of \$325,000. Even though the County obtained sufficient collateral of \$325,000, there was no written agreement between the County and the depository institution, signed by both parties, securing the Fiscal Court's interest in the collateral. We recommend the County enter into a written agreement with the depository institution to secure the County's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive's Response:

Owen County has made contact with American Founders Bank and are awaiting the agreement.

The County Treasurer Should Be Adequately Bonded

The outgoing County Treasurer was properly bonded for the fiscal year ended June 30, 2005. However, the current County Treasurer had not been adequately bonded during our testing. KRS 68.010 (3) states, "the County Treasurer shall execute bond with at least two (2) reputable sureties, to be approved by the fiscal court." We note that as of the exit conference date, the County had the bond in place.

County Judge/Executive's Response:

Matter has been resolved.

PRIOR YEAR:

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This has not been corrected in one of the County's banks (see Note 2).

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 20, 2006. Owen County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Be Adequately Bonded



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 20, 2006

